



COMMISSION NEWS

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DESPITE CRACKDOWN, SMALL-STOCK FRAUD REMAINS A SERIOUS PROBLEM
--Arizona Corporation Commission warns of Internet hype, high-pressure cold-callers--

PHOENIX (December 16, 1999) – Despite a crackdown in recent years by state, industry and federal securities regulators, small-stock fraud remains a serious problem, costing investors many millions of dollars each year.

The bull market on Wall Street shouldn't lull investors into letting their guard down, the Arizona Corporation Commission warned today, in announcing a new brochure warning about so-called "microcap" stock fraud. The Arizona Corporation Commission and the North American Securities Administrators Association (NASAA) are making the brochure available to the public today.

Microcap stocks are low-priced shares in little-known companies traded not on the New York, American or NASDAQ stock markets but on the electronic OTC Bulletin Board or in the Pink Sheets. They're vulnerable to manipulation because of their small "floats"- the number of shares available to trade—and a dearth of public information on many of these companies.

"Microcap shares are often hyped through high-pressure cold-calling stock brokers, misleading press releases, self-serving newsletters and, increasingly, over the internet via "Spam" e-mail, web sites, chat rooms and bulletin boards" stated Arizona Securities Division Director, Mark Sendrow.

Further, Sendrow said, “As the hype and stock price increases, stock promoters or brokers dump their shares on the market, leaving hapless investors with large losses. This scheme is known as the ‘pump and dump’”.

“With this great bull market, some investors may not be as skeptical as they should be about ‘hot stock tips’ and sure things,” said Arizona Corporation Commission Chairman, Carl Kunasek. Added Commissioner Jim Irvin, “con artists, preying on the public lack of familiarity with such companies and desire for huge returns, may well utilize this tactic when dealing with investors who seek abnormally large returns.”

A new publication, “The Informed Investor: Microcap Fraud”, spells out the risk. It’s available at the Arizona Securities Division or from NASAA’s web site (www.nasaa.org) under “Investor Education”. NASAA’s Investor Education Project Group produced the brochure. Information on avoiding microcap fraud is also available on the web sites of the Arizona Securities Division (www.ccsd.cc.state.az.us) and the Securities and Exchange Commission (www.sec.gov).

“You really need to do your homework if you want to invest in unlisted securities,” said Commissioner William Mundell, referring to stocks traded on the OTC Bulletin Board and the Pink Sheets. “These are markets with great risks for any investor.”

Securities Director Sendrow commended the Securities and Exchange Commission and other market regulators for increasing disclosure requirements for Bulletin Board stocks. In addition, he noted that in recent years regulators and law enforcement agencies have brought major actions against the most notorious securities firms that specialized in microcap stocks. “The biggest microcap outfits, the real fraud factories—the Stratton Oakmonts, the Hibbard Browns, the Monroe Parkers—are gone, but the problem (of microcap stock fraud) remains,” Sendrow said. “Investors need be very, very careful.”

Before buying a microcap stock, investors should ask the broker for his CRD number and then call the Arizona Securities Division or the National Association of Securities Dealers to find out if the broker or the firm is registered or has a disciplinary history.

Investors should always get written information about the company such as a prospectus or any other offering documents. They should pay close attention to such topics as risk factors, management, financials, products and use of proceeds from the stock offering.

The Arizona Corporation Commission-Securities Division may be contacted at (602) 542-4242, via e-mail at accsec@ccsd.cc.state.az.us, or visit the web site at www.ccsd.cc.state.az.us.

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